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## Critical Discussion of Balancing Corporate Performance and Conformance

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### Abstract

This paper tries to ask what are the facts and truths and never let the flow of the research go to what we wish to believe. The aim is to identify how a company is able to balance performance and conformance in a sufficient way and learn from cases like Enron in 2001 and Worldcom in 2005 in order to teach those companies about record financial documentations to stay away from being charged by the "Sarbanes Oxley act 2002". Thus, is there any way that companies simultaneously can delegate sufficient activities and budget to ethical practices and have a sufficient performance?

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## **1. Introduction**

Nowadays companies face a vast decision between delegating a proportion of their budget for corporate social responsibility and concentrating on the performance of the company. This has led to much research being carried out within this issue, yet no common correlations have been found. This paper shall discuss key persons within the debate. One of the largest supporters [14] argues that firms should emphasise on corporate performance rather than corporate governance. However, the author in [18, 19] who introduced value chain believes there should be a balance between both. However, other authors [20] disagreed and stated the idea postulated [18, 19] cannot be used by every organization. On the other hand one author [8, 9] introduces the pyramid of corporate social responsibility (CSR) and holds that CSR is indeed voluntary. This view had been extended by another author [3] and is concerned with CSR activities through stakeholders' benefits. This is the key research in this field. However there are other researchers whose ideas will be analyzed here strengthen the discussion further.

## **2. Making profit and performance as the first priority**

Basically the most essential factor for most companies has always been making profit. According to one author [14] who is sometimes known as an advocate for maximizing profits for shareholders believed that businesses should not be held responsible for CSR; it is an activity for individuals companies should focus on making profit.

The author [14] also believed a corporation is an artificial person and in this sense may have artificial responsibilities, nonetheless business as a whole cannot be said to have responsibilities, even in this vague sense. The first step toward clearness in examining the doctrine of the social responsibility of business by asking -accurately what it entails for whom.

It seems that the author's [14] general belief was that only individuals can have responsibilities, not businesses, and the people who are hired by business owners have a responsibility first and foremost to their employers, to meet their desires which in most cases are profits. The author [14] recognizes that an individual can have apparent responsibilities in areas away from the business.

He thought the executive is exercising a separate "social responsibility," rather than serving as an agent of the stockholders, the customers or the employees, only if they spend the money in a different way than they would have spent it.

To analyze the author's [14] ideas we can pay attention to one of his famous key points called "window dressing" which basically represents the whole idea .Window dressing is wonderfully still an appropriate phrase for describing the aim of most companies in the world for doing CSR. Since most companies are doing CSR for building a reputation and image not because they really feel responsible about their society. Therefore the

author's [14] statement makes sense that CSR should be the responsibility of each individual and not the companies' responsibility, but also companies should focus purely on its performance and let each individual citizen concern about CSR.

However another author [28] believes that the author's views are [14] wrong when he argues that a corporation, unlike a person, cannot have responsibility. The author [28] also believes no one would get involved in a business contract with a corporation if they thought for one minute that a corporation was not responsible to pay its bills. So obviously a corporation can have legal, but also moral responsibilities.

Some authors [24] stated that the economic writings [14] suppose an economy in which businesses operate under the protections of limited liability, which permits corporations to privatize their gains while externalizing their losses. By accepting limited liability, Friedman must also accept a view of business as embedded in social interdependency, which serves as the rational and moral foundation for corporate social responsibility. To restore constancy to his economic principles, Friedman has to refuse limited liability or adapt his doctrine on CSR and the related stakeholder model of business Ferrero et al [24]

Although the ideas of the authors [24, 28] cannot be used completely as they do have flaws; as both theories and perceptions are dated hence cannot falsify their statements with convincing evidence.

One author [18, 19] is generally recognized as the father of the modern strategy field espoused shared value. The author [18, 19] believes the central premise behind creating shared value is that the competitiveness of an organization and the health of the communities around it are commonly dependent. Recognizing and capitalizing on these links between societal and economic progress has the power to set free the next wave of global growth and to redefine capitalism. The author [18, 19] also believes many companies focus on ethics just to show off and to build good reputation.

Nevertheless other authors [10] believed that if every company and business world followed Porter's theory SMEs and NGOs may not survive. Since the author's [18, 19] view point is applicable more for big companies which earn enough to collaborate in corporate ethics project. Besides that, the author [18, 19] tried to ground a rule for all companies in the world. This rule cannot be practical due to ethnocentricity. A deeper research can illustrate that the author [18, 19] viewed society as a mono culture. Nevertheless pluralism can guide the society to a more acceptable point rather than having a monoculture.

Alternatively other authors [15] basing their ideas on the European commission 2001 stated that ninety nine percent of all companies in Europe are SMEs and also SMEs are dominant in contributing to the GDP for the world. Consequently the theory [18, 19] would lead the society to not consider SMEs as a big and considerable market. Nonetheless based on business week (2013) research SMEs have a huge effect on the economy of the world.

Unlike the author [18, 19] who never mentioned culture in his shared value and value chain, another author [21] believes that culture is one of the most significant elements in corporate social responsibility. As a result it seems there is no right or common viewpoint in most researches about prioritizing performance over moral

deeds within companies yet.

### **3. Considering corporate social responsibility as a necessity**

The flip side to the debate comes when companies care more for Conformance. It compacts with the ways in which suppliers of finance to corporations pledge themselves on getting a return on their investment [27]. Conformance is also called “corporate governance”. Recent high-profile cases of corporate failure such as Enron, HIH, Tyco, Vivendi, Royal Ahold and, most recently, Parmalat, have brought corporate governance to the top of the business and political agenda.

In order to build a strong enterprise, value must be created that will keep the key stakeholders happy. Since the roles of the board of directors and senior management converge on this overarching objective, these two governing bodies should agree on what value the company can and should create, how it should fulfilled its strategic ambitions, and how performance should be assessed [25]. One author [1] assumed organization use outsiders as board of directors and CEOs in order to have critical thinkers and less discriminative behaviors within the company. The idea about bringing useful and qualified outsiders to avoid corruption and increase efficiency is incredible, however is may be worth pointing out that may be beneficial having the mixture of outsiders and insiders simultaneously. Because insiders can help outsiders capture the culture of the company and since such action takes time, insiders can buy time and energy for the company here. Besides that, every once in a while companies should change their board of directors. This is because after a while outsiders would be considered insiders and the risk of corruption may increase. In some cases well organized governance did not feature powerfully as a key element of success. In other words good corporate governance is not necessarily the reason for a company’s success. However, this does not entail that corporate governance is insignificant for success;

Particularly Enron did not fail just because of inappropriate accounting or assumed corruption at the top. It also failed for the reason of its entrepreneurial culture. The unalterable significance on earnings enlargement and individual plan, coupled with an appalling lack of common corporate checks and balances, leaned the culture from one that rewarded aggressive strategy to one that more and more counted on immoral corner cutting.

The four key corporate governance issues underlying failure were unified no single problem dominated. It was also perceptible that inadequately designed executive remuneration packages distorted behavior in the direction of aggressive earnings management. In extreme cases, when aggressive earning aims were not met, dishonest accounting tended to take place such as in the cases of Enron, WorldCom, Xerox and Ahold. In the cases of success, a virtuous circle appeared based on a conscious decision to take good governance thoughtfully because it was good for the company rather than essential by law or formal codes of best practice. Nonetheless, in some cases outstanding governance did not feature strappingly as a key item of success. This does not mean that corporate governance is unimportant for success. Instead, it illustrates that good corporate governance is crucial, but not enough, foundation for success. To make it simple, horrific governance can ruin a company, but cannot, on its own, assure its success. Enterprise governance, with its heart in both the conformance and performance features of business, guarantees that companies do not be able to find sight of this.

One author [8, 9] appeared to briefly retract his doubtful association of philanthropy with corporate citizenship and to throw out his pyramid concept by reconceiving his model as “the four faces of corporate citizenship”, although soon returned to his original construct. Since the author [8, 9] believes that philanthropy is one of the main elements of his pyramid, the idea apparently was not perfect enough. Simply because people would not remember short runs charities and according to another [18, 19] philanthropy is wasting the money of the company and it is not a sufficient way to do the social responsibility of the company. Companies like McDonald’s also support philanthropy however this does not seem purely charitable.

Some authors [16] believes other’s [8, 9] efforts at incorporating related themes- which definitely recommends that he is trying to establish an umbrella concept for the relationship between business and society [27] missed out the recent trend that integrates the social, economic and environmental features of corporate responsibility [12, 27]. The fact that managers are more and more likely to use the banner of sustainability or the triplebottom-line approach to describe their CSR activities suggests that the pyramid model has limited instrumental value [27].

The pyramid model is determined for universality, but it has not been correctly tested in contexts outside of America. What evidence there is to date recommends that different cultures and subcultures not only give different shades to the meaning of each component, but may also allocate different relative significance [7, 2, 12, 17]

Another author [26] however believes that the best way for crafting CSR programs is to reflect a company’s business values, while addressing social, humanitarian and environmental challenges. Considering the many dissimilar drivers of CSR within an organization, and the many different motivations underlying a variety of plans, it seems immature to expect a company to somehow interlace all this and incorporate it as part of business strategy. Some CSR programs will lend themselves to such an exercise, but many other factors will not.

The rooted problem with CSR practice is that companies typically do not have a CSR strategy. However, they have common disparate CSR programs. Every corporation should have a CSR strategy that unify the various range of a company’s, supply chain, “cause” marketing, and system level programs all under one umbrella. To make it simple CSR strategy should not necessarily be about paying the money of the company to poor people. It can be about helping nature or making the world a better place to stay. In the next section we will examine the role of strategic CSR [29].

#### **4. How to have a balance of performance and conformance**

The author [3] believes if the author [14] was alive today he would support Stakeholder theories. Since the author [3] believes the only way of creating value for shareholders in today’s world is to pay attention to customers, suppliers, employees, communities, and shareholders simultaneously. It is believed that the author’s [14] idea about social responsibility not having a place in business is completely correct. Then again he thinks stakeholder theory is an assumption about business, but community in the civil society is totally central to business and if we have corporate stakeholder there is no conflict between shareholders and stakeholders. Freeman rests the stakeholder theory on the more universal character of Kantian and Rawlsian perception. As

can be seen in the society there are ongoing debates in contemporary business ethics on the relationship between ethics, business, and capitalism [10].

It has been perceived [10] that the author's [14] understanding of CSR is too narrow, concentrated solely on the business and its role in a free market and has become absolutely outdated for the contemporary culture. Whilst the author [14] makes valid points during his deconstruction of the personification of a business; but he also forgets CSR's main element that is its power that is the will of the general public. He may be viewing the business in the accurate manner of which he presented; employees lined up to work for the owner's benefit, but the public do not.

In general people view the company as a whole representative and obviously if one man makes a mistake within the company, the public will judge the whole company. It has been proven time and time again whilst CSR has yet to be harnessed to create a momentous positive difference to profits, a negative policy can destroy profits, as the following author [31] states:

Footwear mogul Nike is still dealing with the backlash of a UK instigated campaign that blamed it of employing child labor in developing countries. It reacted proactively with an exact CSR initiative, including the appointment of a director of sustainable development. In many markets, its reputation has been restored. In a recent survey of most 'ethical' brands by country, although, Nike did not come into view anywhere in the UK ranking [31].

As a result economic performance is the first responsibility of a business. A business that does not demonstrate a profit at least equal to its cost of capital is socially irresponsible. It wastes society's resources. But economic performance is not the solitary responsibility of a business. Power must always be balanced by responsibility; otherwise it becomes domination [11].

It is obvious that those that believe in CSR as a strategy and many authors [11, 31] believe in performance supported by another author [14]. But what is the best strategy to ensure performance is happening through a CSR strategy? It is argued [29] that the most effective CSR strategy is marketing based.

It seems an essential point to understand is that the key issues connecting to each CSR aspect are not all entirely marketing related. For instance, pollution control at a chemical plant is a production related issue, standard setting for supplies is a procurement related issue, and the setting of fair play is a human resources issue.

Corporate citizenship has different historical roots in different regions globally and is viewed with diverse viewpoints [30]. For instance in Europe and the U.S most companies try to have a balance between conformance and performance. However, in Asia the majority of companies do not recognize CSR as a main priority.

Unlike the companies' comparison above, ethics and moral behavior are considered significant issues for most Asian individuals. Particularly a very recent report by some authors [23] has found that the Chinese are more likely to report the unethical acts of peers than Canadians. One author [4] suggested that this may be attributed to the greater collectivism and long term orientation of the Chinese.

In addition whether in Asia or Europe it is impractical to be ethical in a business like Tobacco Company which the main product is a harmful cigarette and nature of the business makes it unethical in itself. However JTI (Japan Tobacco international) as an Asian company in February 2012, JTI began a program called ARISE (Achieving Reduction of Child Labor in Support of Education) in order to help society. Nevertheless as mentioned earlier Tobacco is not an ethical business in nature. Therefore according to one author [14] it is more like window dressing rather than a real ethical practice.

## **5. Utilitarianism versus Kantianism**

The basic concept of utilitarianism according to one author [5] is based on the Greatest Happiness Principle which states actions are right in proportion as they lean to promote happiness, wrong as they tend to produce the reverse of happiness. Furthermore, since happiness equals the pleasure and the lack of pain and unhappiness equals to pain and absence of pleasure, Hence happiness is the only thing that has inherent value. In the theory, pleasure, and freedom from pain, is the only things desirable as ends. One author argues [6] that each man should work for his self-interest, therefore the economy as a whole, by the invisible hand grown and bestowed. According to another author [26] also stated that capitalism is the only system which is capable of protecting individual rights. Nevertheless in today's world people are seeking for happiness in a self-centered way more than any other time. Companies also focus on performance strongly to earn more and reach happiness. Therefore how could ethical behaviors make a selfish society happy? Thus moral and ethical behavior can only be achieved if members of that society assume utilitarianism is wrong. The reason being is an ethical deed is only ethical when the person doing it does not benefit from it. So based on utilitarianism, if companies and people continue to be selfish, it leads to a society that has no pure ethical practices within it.

On the other hand and unlike others [5] one author [21] introduced two questions that we must ask ourselves whenever we decide to act: Can I reasonably will that everyone act as I propose to act? If the answer is no, then we should not perform the action. Does my action respect the objectives of human beings rather than merely using them for my own purposes? Again, if the answer is no, then we must not perform the action. So based on Kantianism if a company wants to practice CSR, it should be for the respect and benefits rather than image building for a company.

Most companies do CSR just for window dressing most companies in the world may follow Utilitarianism consciously or subconsciously to survive. In the other words these companies are just showing they care about ethics purely because they want to build a positive image and reputation for their company in people's mind therefore using CSR as a showcase.

## **6. Conclusion**

Whilst we try to incorporate ethics and business holistically, the fact remains that we cannot completely avoid the reality that business and life objectives may conflict in at least some circumstances. Apparently, today's society is matched with window dressing Friedman's idea. Ethical behavior is only valuable when no one knows about it; the purpose of doing it supposed to make someone happy; not to be used as a public relation tool. If organizations want to be ethical it could implement it in silence without any media portrayal of it. This way of

focusing on ethics can also be seen in most religions including Islam, and Buddhism. The philanthropic CSR has been rejected [9] and one author [18, 19] believes that philanthropy does not have a long term positive effect on the reputation of the company and it mostly wastes time and budget which could be spent on a more useful project within the company. For instance this money according to another [1] can be allocated on hiring outsiders for the board of directors who can bring different ideas and viewpoints into the company.

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